



# **California Energy Commission**

## **Committee Hearing on the Staff's Preliminary Natural Gas Assessment and Policy Issues**

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# Why Is PG&E Interested in the Outlook for Natural Gas Supplies?

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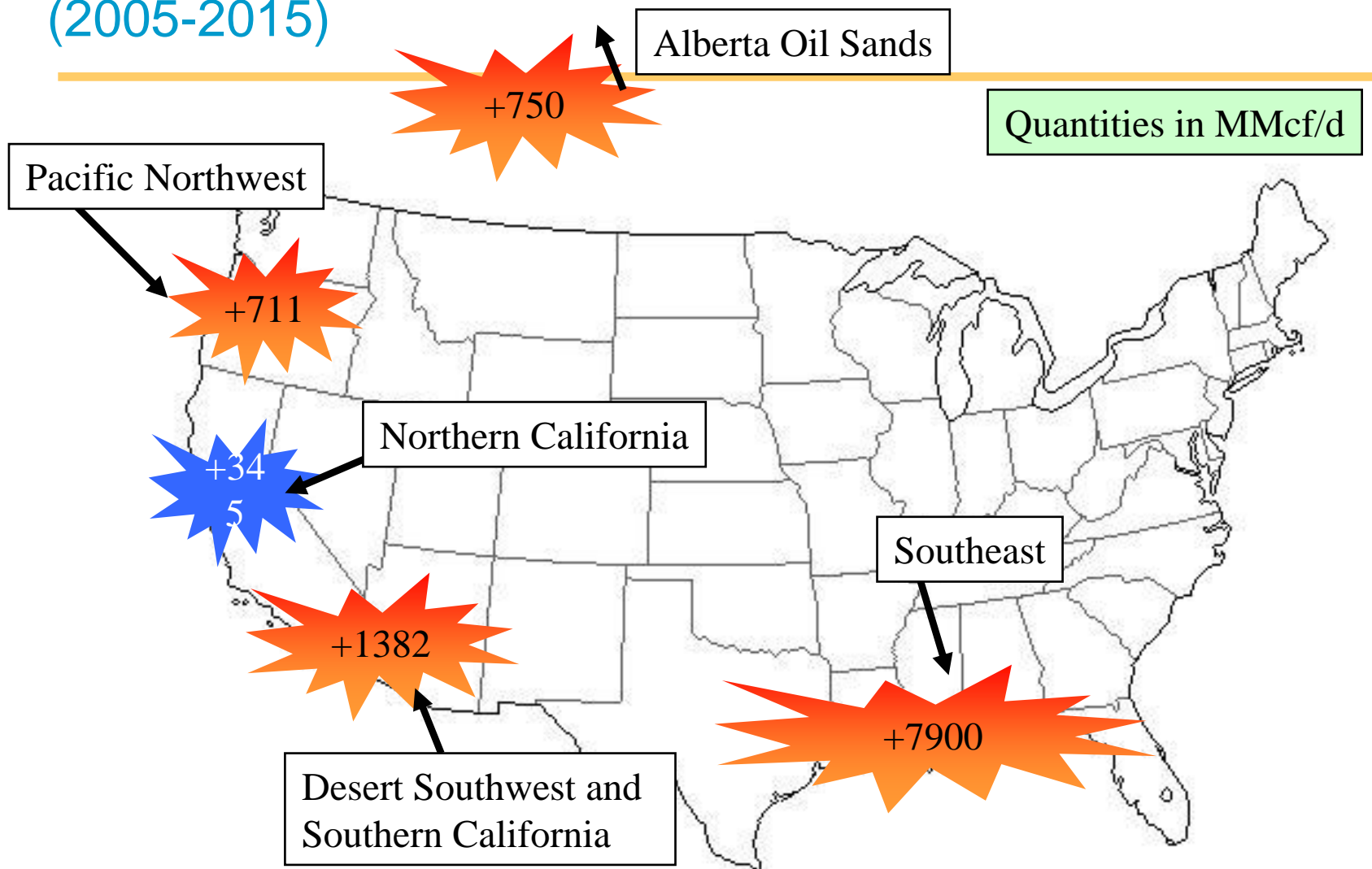
- Growth in gas supply is critical for achieving reasonable prices.
- Customers view our **retail prices** as their number one satisfaction item.
- Most **gas** customers' rates change monthly based on current prices – higher or more volatile prices will be seen immediately.
- Over time, our **electric** portfolio will be subject to increasingly more gas price risk.

# Gas Demand Issues

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- Gas demand in the Pacific Northwest and the Desert Southwest will grow, increasing competition for supplies from Canada and Southwest.
- Growth in natural gas demand in California and western US will be driven primarily by the Electric Generation sector.
- Reliable and cost-effective natural gas supplies are necessary to promote clean-air transportation technologies.
- PG&E supports aggressive renewable, energy efficiency and demand response programs, which are reflected in the Staff energy forecasts.
  - PG&E supports working with other states to coordinate demand-side management policies and programs.
  - Even with demand-side management programs, demand is still growing. California needs to address need for new supply.

# Natural Gas Demand Growth Hot and Cold Spots (2005-2015)



Data sources:  
CEC and EIA

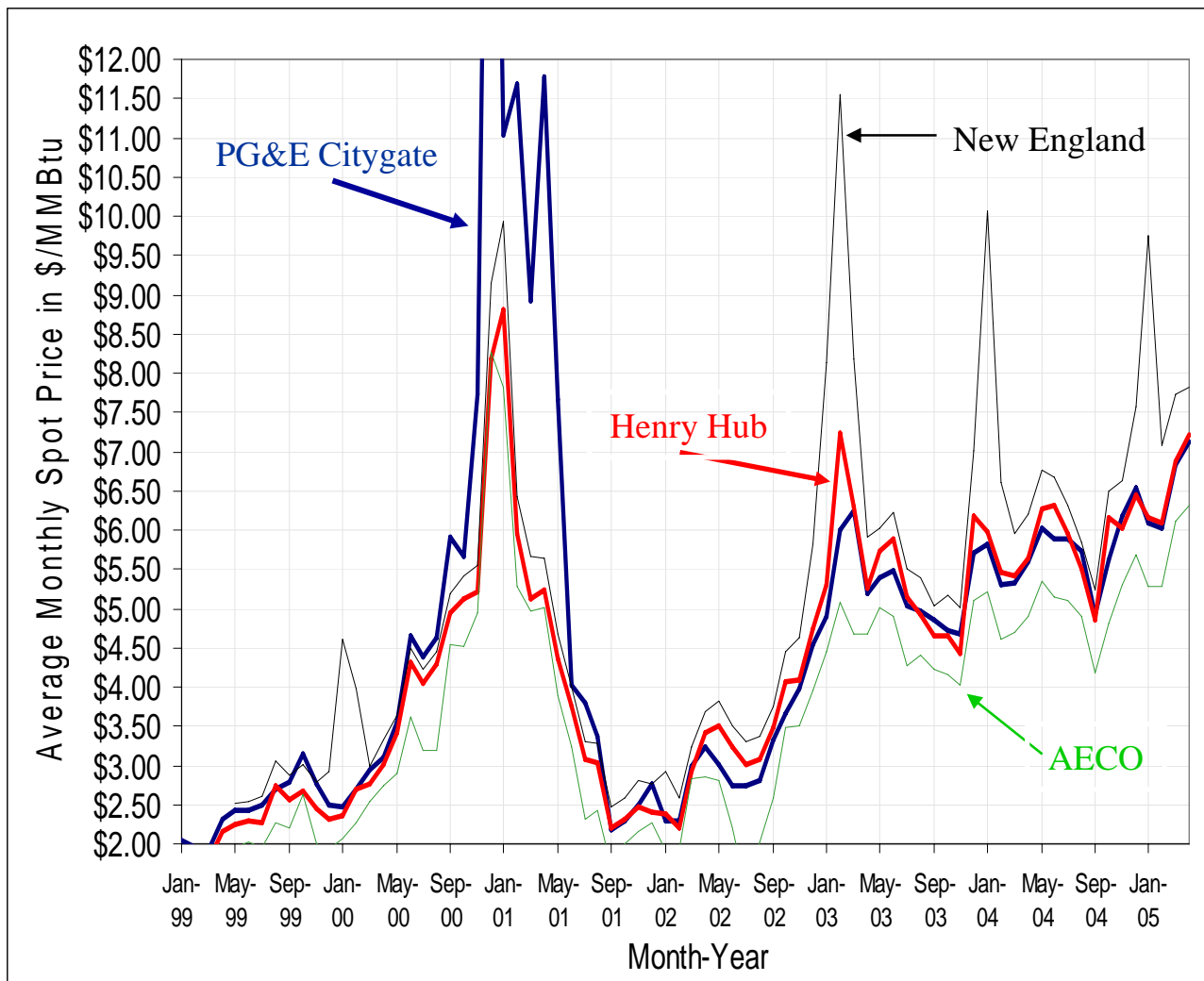
## PG&E's View on Natural Gas Supplies

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- The tight supply/demand balance for natural gas in North America is a key factor keeping gas prices at relatively high levels.
- PG&E sees a need for new supplies from non-traditional sources.
  - California's most promising new supplies are LNG and an Alaskan pipeline.
  - LNG will arrive sooner than Alaskan supplies.
- California consumers stand to benefit from direct access to new sources of supply to enhance supply competition.

# Ample Infrastructure Moderates Local Gas Price

- PG&E Citygate prices generally track the movement of prices elsewhere in the U.S.
- Improved infrastructure and lower gas-fired EG demand have reduced volatility in Citygate prices.
- All prices have trended up since late 2001 due to tightening of North American supply/demand balance.
- New England price spikes in winter due to relative lack of storage.



# Natural Gas Price Disconnect

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- Market price (\$6-\$8/MMBtu) is higher than marginal production cost (probably \$4/MMBtu). Why? Two complementary theories:
  - Theory 1: Driven by high oil price.
  - Theory 2: Shift from conventional gas reservoirs (high initial production, rapid decline) to unconventional resources (low initial production, but slow decline), coupled with limit on drilling rigs.
- Gap between market price and production cost makes it difficult to forecast benefit of new supply.

# Natural Gas is Vital to a Healthy Economy

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- PG&E, SCE, SoCalGas and SDG&E are working with the state agencies/natural gas working group to investigate the sustained effect of current gas prices on the economy of California.
- Air quality improvements are tied to adequate supplies of natural gas to support expansion of clean air transportation programs.
- Developing new supply to the west coast will provide greater pricing benefits to California.



## New Infrastructure Needed

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- LNG volumes entering the California market will increase the need for storage.
- New or expanded infrastructure will be needed to connect to new supplies.